

Statement of
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United States Postal Service
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House Committee on Government Reform
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I. INTRODUCTION

Chairman McHugh, Representative Fattah, and Members of the Subcommittee, I appreciate this opportunity to discuss the accomplishments of the Office of Inspector General and our contributions to the United States Postal Service during the past year. Joining me today is Colleen McAntee, Acting Assistant Inspector General for Audit. With your permission, I would like to submit my full statement for the record.

Mr. Chairman, I am proud to report that Congress' decision to establish an independent Office of Inspector General four years ago has resulted in a more effective Postal Service today—one that is much better prepared to succeed in the face of unprecedented competition. The Postal Service has worked for over two centuries to establish its trustworthy, reliable reputation, and it is challenged now more than ever to maintain that reputation while rapidly deploying new products and services to counteract decreases in First-Class Mail revenue and unexpected cost increases.

Although it faced unprecedented obstacles this year, the Postal Service also had many notable accomplishments. Its Year 2000 initiative resulted in a smooth transition to the 21st century—proof that it is capable of successfully overcoming technological hurdles. It expanded its traditional services to include a number of

new products and services that meet its customer's changing needs. The Postal Service successfully delivered 120 million pieces of misaddressed Census mail. It cut billions of dollars in operating costs. *Fortune* magazine named the Postal Service one of the top employers for minorities. And, perhaps most importantly, its service performance was outstanding—a poll shows that 9 out of 10 customers give the Postal Service high marks.

Our office has worked to help ensure that the Postal Service meets the challenges of the new electronic era, while at the same time maintaining the reputation that has made it an integral part of Americans' daily lives. Our reports and investigations have:

- Highlighted postal processes and systems in need of improvements.
- Uncovered illegal activities that affect postal operations.
- Identified ways to save costs and increase revenues.
- Helped bring to light issues that affected the workplace environment and thus, improved morale of the Postal Service's most crucial asset—its employees.

The tremendous progress we have made in our infrastructure this past year has allowed us to identify potential savings resulting in a projected return on investment of approximately four to one for this year. In addition, our staff has grown from approximately 400 to 660 employees, and we have established five additional offices around the country. This has allowed us to increase our visibility with stakeholders; extend our coverage of postal operations; and better provide Congress, the Governors, and postal management with independent and objective analyses.

Since our inception in 1997, we have issued over 500 products, with recommendations that could potentially yield monetary benefits of \$1.4 billion, \$260 million of this was identified in fiscal year (FY) 2000. In addition, since our inception, our investigations have yielded 42 arrests, 13 indictments, and

11 convictions; \$13 million in recoveries; 36 contractor suspensions and debarments; and approximately \$160,000 in fines and restitution.

My testimony will focus on the work this office has conducted to address the areas we believe are the Postal Service's major management challenges, our oversight of the Inspection Service, and our progress in establishing this office since my last testimony.

II. MAJOR MANAGEMENT CHALLENGES FACING THE POSTAL SERVICE

In order to help focus our resources, we with the aid of Postal Service management and stakeholders identified the top ten major management challenges facing the Postal Service. These challenges have been revised each year to address changes facing the Postal Service. Addressing these challenges have been key in planning the work for this office. Today, I would like to discuss these challenges, which have been condensed into the following four major issues:

- Growing revenues and competing in a rapidly changing market.
- Maintaining affordability by controlling costs.
- Improving the workplace climate and labor relations.
- Leveraging technology to enhance productivity.

The following sections discuss each of these challenges and the work that we have conducted over the past year. The work discussed in this testimony does not include Postal Service management comments or actions planned or taken. While we have been generally pleased with management's response to our reports, some of the work included in this statement contains outstanding disagreements. We plan to address outstanding disagreements during the audit

resolution process. In addition, we would be pleased to provide you with a copy of our FY 2001 performance plan upon completion.

A. Growing Revenues and Competing in a Rapidly Changing Market

Postmaster General Henderson reported that increasing competition from electronic commerce and other competitors has slowed the growth of postal revenue and is expected to have a continuing impact on the Postal Service's financial viability. Electronic commerce threatens to reduce First-Class Mail, putting at risk as much as \$33 billion over the next nine years. In addition, foreign postal services have recently set up offices in the United States, siphoning away millions of dollars in outbound international mail. Consequently, the Postal Service is being challenged to find new revenue sources at the same time the Postal Service is being challenged to fulfill its core mission of delivering mail timely and improving customer service.

To assist the Postal Service with this challenge, we are assessing how the Postal Service maintains public trust, enhances core business processes to improve customer service, and develops new products and services to grow revenue.

Public Trust. The Postal Service values the public's trust it has established over the years, and therefore must assure that it operates in a manner that will maintain this trust and avoid negative public perceptions. Financial integrity and the integrity of Postal Service officials, systems, and the ratemaking process all impact this public trust, directly affecting the Postal Service's ability to keep and attract customers. We will highlight a number of reviews conducted in this area.

- Mr. Chairman, at your and the Governors' request, we conducted an audit examining relocation benefits paid to Postal Service executives. Our audit disclosed the Postal Service paid approximately \$250,000 in relocation expenses to two senior Postal Service executives who moved about 20 miles,

with no change of duty station, and without sufficient documentation explaining why the payments were in the best interest of the Postal Service. In our report, we questioned whether relocation benefits had been used in these instances to augment the salary of these executives above the statutory pay cap. As a result of our report, the Board of Governors adopted a resolution requiring their approval of each component of compensation and benefits for postal executives, including relocation benefits. The resolution also stated that the Board shall, as appropriate, establish standards for deviation from the benefits program.

- Based on concerns raised in our first review, we conducted a subsequent audit, which disclosed the Postal Service paid its executives miscellaneous relocation expenses of \$10,000 or \$25,000 without requiring proof of expenses incurred. Through benchmarking, we found the amount paid to Postal Service executives was up to five times higher than those paid by comparable private companies. Again, we questioned whether these miscellaneous relocation payments were used to augment the statutory pay cap.

We are currently reviewing other Postal Service relocation benefits, including equity loss payments, shared equity appreciation, and incentive packages. We will report our overall assessment of the Postal Service's relocation benefits at the conclusion of our work.

- Our efforts to support the annual financial audit of the Postal Service are significant. The Postal Service would rank in the top 10 of the Fortune 500 companies based on its revenues. Because of the size and complexity of postal operations, we have teams strategically located at three accounting service centers and headquarters to validate the accuracy and reliability of the financial information maintained in postal systems. As part of this process, we also review the controls over software and data security to

ensure the confidentiality and integrity of the data maintained on these systems. Although our FY 2000 financial work is not complete, we have identified instances of overpayments, weaknesses in internal controls, and security issues in the data processing systems.

- In our review of chauffeur driven vehicles, we found that some Postal Service executives improperly used postal vehicles and chauffeurs. The misuses were allowed to continue over an extended period of time because controls over vehicle use, such as daily logs, were either inadequate or nonexistent. Because the issues identified are potential violations of federal law, we believe stronger controls should be implemented to minimize the risk that vehicles could be misused, and to more easily identify misuse if it occurs.
- At your request, we reviewed the Postal Service's revenue assurance process. Our review disclosed that revenue deficiency assessments were not timely, mailers did not receive advance notice of deficiencies, and deficiencies assessed were sometimes due to incorrect information given by Postal Service personnel to mailers.
- We also conducted a review of the Postal Service's Economic Value Added Variable Pay Program.¹ Our review, which was based on Postal Service projections as of March 24, 2000, disclosed that the program payments have increased annually from 16 percent of net income in FY 1996 to an estimated 325 percent of projected net income in FY 2000. Postal Service management defends the program because they believe it forces productivity improvement. According to Postal Service management, productivity is at its highest level since 1992, which they use as an indicator that the program has produced the intended results. However, at a period of time in which the Postal Service may face a negative net income, it has asked for a rate increase and is

¹ Economic value added variable pay is a group incentive based on an economic value added financial measure developed by the Postal Service.

reducing its workforce. Payouts of this magnitude may be perceived negatively by postal stakeholders. We are continuing to analyze the economic value added formula and its application, as well as its effect on delivery of all services within the Postal Service. For example, we found international mail was not moved timely in part because managers did not place a priority on mail processing since it was not a program measurement.

- The manner in which the Postal Service establishes its rates is key to preserving public trust. Therefore, to better understand the responsibilities of the Postal Service, we issued a primer explaining the ratemaking process. We have been told by the Governors and others that this is an excellent tool for understanding the process.
- Our review of the Breast Cancer Research Stamp program determined that the Postal Service did not follow its own policy in recovering costs for this program. Therefore, money was contributed to the Breast Cancer Research funds that should have been used to offset costs of the program. As a result, ratepayers who purchased other postal products unknowingly contributed minimal amounts to the Breast Cancer Research funds. With the passage of the new legislation authorizing the Postal Service to establish additional semipostal stamps, we continue to be concerned that without proper controls the Postal Service will continue to pass the associated costs on to unknowing ratepayers.
- Our office conducted a joint investigation with the Inspection Service of a Postal Service Tort Claims Coordinator who fraudulently prepared, approved, and submitted vehicle accident claims. The employee was arrested for embezzlement after receiving over \$67,000 in payments from the Postal Service.

Core Business Processes and Customer Service. To provide world-class service, the Postal Service must excel in performing its core business processes, which include accepting, processing, transporting, and delivering the mail. Each day, Americans send over 650 million pieces of mail through the Postal Service expecting it to be processed timely and accurately. The Postal Service must accomplish this to assure that customer service does not suffer. Therefore, the Postal Service must ensure it has appropriate performance measures for monitoring the acceptance, processing, transportation, and delivery of the mail. Recent media coverage has emphasized that customer service can suffer when appropriate controls are not in place. Some of our more significant reviews are highlighted below.

- At your request Mr. Chairman, we are conducting a review of certified mail delays in California, Connecticut, Delaware, Illinois, and New York. Preliminary results confirmed that certified mail was delivered late in 4 of the 5 locations and generally exceeded delivery standards by at least 10 days during the tax season. In Illinois and Connecticut, we noted that delays were still occurring. We also found that late mail was primarily attributable to inadequate planning, staffing, and supervision of mail processing operations. In addition, in some cases, mail arrived late due to transportation delays. Delays went undetected because of the lack of a standard system to report certified mail.
- We conducted reviews to verify allegations that mail service had deteriorated. At one location in the Mid-Atlantic Area, we found approximately 1.2 million pieces of Standard Mail that was up to a week late. In another location in the Pacific Area, we found over 200,000 pieces of delayed and unprocessed international mail, some of which was over three weeks old. And in the Southwest Area delivery units, we found approximately 75,000 pieces of unprocessed mail including time sensitive materials such as tax documents and medical information. In each instance, after we notified Postal Service

management, they took prompt action to reduce unprocessed and delayed mail.

- The Postal Service could not identify the causes of late mail or the timeliness of mail movement because the air carrier performance system was inadequate.
- We determined that the Postal Service had accepted over 21,000 delivery vehicles under a \$441 million contract, even though the fuel pumps on the vehicles failed within 100 hours when used with ethanol fuel.
- Our review found that the External First-Class Measurement System was not a representative measure of system-wide performance and delivery of First-Class Mail. Further, customers had not been fully informed that on-time delivery scores did not measure postal-wide performance.

New Products and Services. The Postal Service and its customers face the necessity to adapt their business products and services to survive in a constantly evolving market place. In addition, many new products and services introduced by the Postal Service are designed to generate revenue. However, in many instances, competitors and others have questioned whether it is appropriate for a government entity with monopoly protection to provide nontraditional products and services in competition with the private sector. We are highlighting two reviews in this area.

- We reviewed the Delivery Confirmation Program, a tracking service similar to those already provided by competitors. Our draft report identified that the Postal Service did not consistently provide accurate delivery status.
- Our report on a major Internet service initiative for bill presentment and payment, projected to generate significant revenue between FY 2001

and FY 2005, reviewed whether the system met privacy and security requirements.

- In a recent review, we found that Postal Service officials believed they had lost the opportunity to generate at least \$25 million in revenue from a major Internet retailer because they could not provide volume discounts and credit flexibility requested by the company. Our draft report concluded that while the Postal Service did not have the same commercial freedoms as its competitors, it had not used existing authority to request discount and credit flexibility from the Postal Rate Commission.
- We reviewed the Sales Force Augmentation Program, a major revenue initiative projected to generate significant revenue between FY 2000 and FY 2002. Our draft report disclosed that revenue reported by a contractor's sales personnel could not be verified. As a result, the Postal Service may have paid the contractor commissions based on unverified sales.

B. Maintaining Affordability By Controlling Costs

With over \$60 billion in operating expenses each year, the Postal Service needs strong management controls to mitigate historic trends that drive rate increases and ensure its ability to provide universal mail service at affordable rates.

Controlling costs requires strong contract administration, effective program oversight, and sound budget processes to make informed decisions.

Contract Administration. In FY 1999, the Postal Service contracted for \$9.1 billion in supplies and services, equipment, transportation, and facilities. To assure strong contract administration, the Postal Service needs to monitor its contracts to assure that work is performed, validate contractor charges for services rendered, ensure proper controls, and oversee contractor activities. The

Postal Service is one of America's largest owners, developers, and managers of real estate, holding over \$20 billion in real property. In addition, the Postal Service committed over \$1.6 billion in repair, renovation, and new construction of facilities, and paid over \$727 million in rent in FY 1999. Our more significant reviews and investigations in this area are highlighted below:

- An investigation of a \$3 billion telecommunications contract and the contractor's accounting and billing process resulted in the Postal Service recovering \$12.2 million because of outage credits² and overcharges, and costs for substandard and defective materials and incomplete work. Postal Service management agreed to establish controls to avoid up to \$96 million in overcharges for the remaining eight years of the contract.
- For a portion of our contract audit work, we used the Defense Contract Audit Agency to assist in determining fair and reasonable contract prices, the adequacy of contractor accounting, estimating and billing systems, and whether payments to contractors were only for allowable and actual costs. As of September 12, 2000, 60 contract audits have been completed, which questioned a total of over \$36 million in costs. This includes questioning over \$11 million in contract costs of a major mail processing equipment manufacturing contractor because the contractor's estimating system and procedures were not adequate for preparing accurate cost proposals.
- Our draft report on facilities construction contracts disclosed the Postal Service had incurred \$19 million in excess costs on 11 of 33 contracts.
- As a result of joint investigations, in this fiscal year, 36 Postal Service contractors have been suspended or debarred.

² Outage credits are amounts due to the Postal Service because of system failures.

- At the request of Representative Fattah, we conducted a review of opportunities for minority contractors to participate in advertising contracts. Our review resulted in the Postal Service requiring its primary advertising contractors to prepare subcontracting plans, which will increase opportunities for minority contractors to compete for \$150 million in Postal Service advertising contracts.
- In the environmental area, we found the Postal Service paid a contractor \$869,000 for removal of asbestos at approximately 186 postal facilities. Our investigation determined that the abatement work was incomplete and the Postal Service is seeking recovery of overpaid funds and completion of asbestos removal.

Budget Processes. A sound budget process enables an organization to effectively plan and allocate resources. A well-planned budget also functions as a tool for management to monitor how well an organization performs when compared to initial strategic plans and goals. During our budget and performance reviews, we found that the Postal Service did not always effectively plan, control, and allocate organizational resources to invest in and support the Postal Service's goals.

- The Postal Service surpassed its goals to reduce its budgeted and actual expenses by about \$675 million through reductions in headquarters programs to preserve financial goals for FY 1999. However, we found that the Postal Service reduced headquarters expenses without fully considering the long-term strategic impact on programs and operations, including its potential impact on the FY 2000 net income.
- The Postal Service's FY 2000 budget formulation process was generally effective in allocating funds for functional area programs and operations. However, budget estimates were not based on current and complete

analyses and may not have been sufficient to fully support the Postal Service's strategic goals, including those for reducing costs and increasing revenues. In addition, it was difficult for the Postal Service to manage its program costs because the accounting records only reflect expenses when they are paid. Therefore, managers do not have a real time picture of their finances. While management has not formally responded to this draft report, we believe implementing an accrual accounting system is imperative to the Postal Service having an accurate picture of its financial position at the program level.

- We have consistently found that inadequate budget planning is an issue in other program areas such as Year 2000 (Y2K), computer security, and automation. For example, in our draft report, we found that at 24 of 42 facilities, tray-feeding mechanisms needed to operate the robotics tray handling systems were not installed because engineering had not included funds to install this equipment in the original funding request. As a result, Postal Service has not realized the full benefits of this system.

Program Oversight. Because the Postal Service must ensure each of its products is cost beneficial, effective program oversight to control costs is essential to ensure all operating costs are captured for each program and matched against related revenue. A particular concern of ours is the potential for false claims, double billings, and collusion between doctors, other medical providers, and postal employees. The following are examples of reviews addressing how more effective program oversight could have controlled costs.

- An audit requested by a Postal vice president disclosed the Postal Service could have avoided \$23 million in repair expenses if a required detailed engineering study had been conducted prior to the purchase of a building. Instead, because they perceived a need to quickly purchase a building, Postal Service officials allowed a less extensive visual inspection to be conducted.

As a result, major deficiencies in the building were not detected, which require extensive repairs.

- A draft report on the Kansas City Stamp Fulfillment Center disclosed that the Postal Service could increase revenues by \$6 million per year by charging the full rate of shipping philatelic stamps and related products.
- Our review of air carriers disclosed that in FY 1999, \$5.6 million in ground handling services was being paid to air carriers for work performed by Postal Service employees. The Postal Service has an opportunity to save approximately \$28 million over the next five years by adjusting the contract rate.
- A bulk mail center review in the Southwest Area found that the Center was paying for unnecessary highway trips because trucks were not fully loaded. Further, the Center was charged \$5 million in extra trip expenditures, which it could not control because the trips were authorized by other facilities.
- Our review of a Postal Service Carrier Annex confirmed an allegation that the Postal Service entered into a \$4.2 million, 20-year lease of a 30,000 square foot building, which had remained vacant for almost two years. Postal Service management agreed to sublease the building, which would allow them to save up to \$2.4 million.
- At the request of the Chairman of the Board of Governors, we reviewed selected controls over the disposal of inventory valued at about \$16 million at a large postal facility. Our review disclosed that an inventory of all property had not been conducted since 1990 even though the operation moved during this time and postal policy required management to conduct a full inventory every five years. Therefore, Postal Service management could not confirm that all property was properly accounted for, disposed of, or transferred.

Even though this was only at one center, we are concerned that similar problems may exist at other facilities. Therefore, we plan to consider this issue for a systemic review in FY 2001.

- Because of insufficient program oversight, two postal managers were able to carry out an elaborate scheme to defraud the Postal Service. The scheme involved the managers conspiring with Postal Service contractors in funneling bogus invoices and bills through them for services and supplies not received. The employees used the money to buy real estate, a boat, fine jewelry, and deposited the rest into investments and foreign bank accounts. This joint investigation with the Internal Revenue Service and the Inspection Service has resulted in the identification of fraud in the amount of approximately \$3.2 million. Thus far, our office has successfully recovered over \$400,000.
- We worked a joint investigation with other Federal law enforcement agencies, which resulted in an Oklahoma-based physician billing company and its founder agreeing to pay the government and 28 states \$15 million as settlement for false billings to various government programs. The Postal Service recovered \$155,500 from the settlement agreement.
- During the investigation of a health care provider for alleged double billing, the OIG found several overpayments were made to a former postal employee who was receiving disability compensation. We requested that the Department of Labor credit the Postal Service for the \$25,000 in overpayments.
- As a result of a joint task force investigation, a search warrant was executed and an individual was arrested for defrauding Federal Employees Health Benefit Program. The scheme involved the diversion of expired and substandard drugs to health care providers, thus endangering the health and well-being of Postal Service employees.

- An OIG-led task force initiated a joint investigation into fraudulent billing of medical claims by a medical provider. The provider was fraudulently billing medical clinics for services not rendered to the Postal Service and state employees under the Workers' Compensation Program. Since December 1998, the provider billed the Postal Service for over \$400,000 in medical services.

C. Improving the Workplace Climate and Labor Relations

With approximately 800,000 career and 100,000 non-career employees, improving workplace relations among labor, management, and the unions and associations that represent them, the Postal Service has characterized labor management relations as one of its most important challenges in achieving its goals in the 21st century. To operate effectively in a rapidly changing environment, the Postal Service has recognized that it will need to give employee issues a higher priority and enhance each employee's contribution to organizational performance. Because of the importance of labor management relations on postal operations, the Postal Service has developed numerous initiatives and programs focused on reducing conflict in the workplace and improving the effectiveness of procedures to resolve disputes. In addition, established channels, such as grievance and arbitration procedures and the Equal Employment Opportunity process, are available to help resolve Postal Service employees' complaints. The OIG is also working with Postal Service management to ensure that Postal Service employees are afforded the same whistleblower protections as provided to other federal employees.

As you know Mr. Chairman, since the inception of the OIG, we have been working with the Postal Service and Congress to address these issues. However, adequately addressing labor management relations continues to be one of our toughest areas. To date, we have received over 2,800 individual labor

management complaints, including approximately 500 that we received from Representative Fattah in July 1998. Because of the emotional involvement, potential financial impact, and the length of time to resolve these issues for the employee, management, and Postal Service, it is important that our involvement in this area be meaningful and positive. Therefore, the approach we have developed to deal with the sheer magnitude of complaints is to step back and focus primarily on systemic issues and conduct postal-wide reviews. These reviews are designed to identify and prevent potential problems that can detract from a healthy and productive work environment.

Federal Inspectors General typically perform programmatic and operational audits. To our knowledge, we are the only Inspectors General office that has a dedicated workforce reviewing labor management relation issues. Most individual labor management complaints do not focus on programs and operations but on personal concerns. Therefore, we usually do not review individual complaints unless they involve potentially violent or other egregious situations. However, if there is a substantial number of individual complaints at a particular facility or location, we will conduct a review to assess the workplace climate. Individual complaints also provide us with extremely valuable information that we can use to identify postal-wide issues and plan reviews that address these issues on a systemic basis.

We have continued to receive a number of individual complaints that Members of Congress have asked us to address for their constituents, who are Postal Service employees. While we are very interested in being responsive and helpful, we simply do not have the staff to always address each of these individual complaints nor do we believe it is within the mission of this office as constituted under the Inspector General Act.

With our system of evaluating the individual complaints and planning our systemic reviews as well as our efforts to increase staff, we are now beginning to

see the results of our systemic work in the areas of violence in the workplace, workplace climate, and the Postal Employees Safety Enhancement Act. Responding immediately to allegations of violence in the workplace is a major initiative within the OIG because over the past decade, highly publicized incidents of workplace violence have increased concerns about the Postal Service's ability to maintain a safe and healthy workplace environment for its employees. Likewise reviewing workplace climate concerns, such as managerial behaviors including harassment and intimidation, has been a major initiative within the OIG to assist Postal Service management in improving the workplace and thus, increasing morale and productivity. Third, we are evaluating whether Postal Service employees are working in a safe and healthy environment.

The OIG has conducted 55 reviews and completed 52 congressional responses in the area of labor management relation, some of which are highlighted below.

Violence in the Workplace. A study³ commissioned by the Postal Service reported that Postal Service employees believe they are at greater risk than the average worker to be a victim of workplace violence. However, the study also concluded that Postal Service workers are no more likely to be victims of violence than employees in the national workforce. This study was commissioned because the Postal Service recognized that signs of workplace stress were present and comprehensive steps were needed to improve the workplace environment. We worked with the Commission during this study and provided them with information and other assistance as requested. This study reinforced and referenced many of our findings and recommendations made to prevent violence and improve the work environment.

We have continued the work that we discussed with you last year concerning Postal Service implementation of the Violence Prevention and Response

³ Report of the United States Postal Service Commission on a Safe and Secure Workplace, August 2000, prepared by the National Center on Addiction and Substance Abuse at Columbia University.

Programs. Specifically, we have looked at the program criteria and its implementation in 26 district offices in five postal areas. We found that all 26 district offices had established threat assessment teams. Generally, our draft reports disclosed that districts have not fully implemented violence prevention strategies to prevent violence from occurring. For example, on case management of threats, 21 of the 26 districts did not fully monitor individuals who made the threats through resolution or engage in case management of all threats. Other issues included orientation training for the threat assessment core team members and violence awareness training for all Postal Service employees.

Workplace Climate. While the Postal Service's study focused on violence in the workplace, it did identify that postal employees have more negative attitudes than employees do in the national workforce about work, coworkers, and management. These negative attitudes may contribute to some of the perceptions surrounding workplace climates. However, our work has indicated that in many instances, managerial behaviors have resulted in lower morale. A recent congressional complaint contained allegations from 32 postal employees regarding harsh working conditions and abusive management styles at a postal facility. We confirmed the existence of a confrontational and hostile workplace climate including inappropriate communication styles, verbal abuse, and aggressive management practices. While our OIG staff was present in the facility, we observed management yelling at a craft employee. In addition, while our staff interviewed the manager of the facility, he played with an empty bullet casing, which our staff believed may have been done in an attempt to intimidate us during our interview. We immediately conveyed our observations to senior management officials who immediately agreed to take corrective action and inform us in writing.

Postal Employees Safety Enhancement Act. Two years ago, this Act was passed to include the Postal Service under regulations that provide for sanctions

for safety and health violations, the same as those imposed on private employers. This past year, fines have started to be levied against the Postal Service for violations of the Act. Our work in this area is to mitigate the likelihood of the Postal Service being fined for violations and to assure that the working conditions do not negatively impact the organizational climate and postal operations. Specifically:

- We validated allegations of unsafe working conditions in a Southwest Area facility, where both area and district management officials had known for the past 14 years of the deteriorating conditions and potential safety hazards. This work resulted in our first video report. The video allowed Postal Service management and the Governors to see first-hand the deplorable conditions. As a result, management moved employees to a temporary facility and approved a \$5 million renovation of the facility to correct the unsafe conditions.
- We confirmed an allegation that a Western Area facility manager ordered the use of a copper tube in place of a fuse to keep machinery running, directly exposing employees to hazardous working conditions. Our draft report disclosed that management used an unsafe means of keeping the machinery going rather than other acceptable alternatives.

Whistleblower Protection Act. The Whistleblower Protection Act provides employment protections to most non-postal federal employees who disclose information pertaining to a violation of law, gross mismanagement, gross waste of funds, abuse of authority, or substantial and specific danger to public health and safety. We recognized that labor management relations can be enhanced and employee morale improved if Postal Service employees have a venue where they can present their grievances and report wrongdoing without fear of reprisal. Since our inception in 1997 and at your urging, we have continued to have discussions with Postal Service management about enhancing whistleblower

protections within the Postal Service. The Postmaster General recently agreed that the Whistleblower Protection Act should be adopted in the Postal Service as a matter of policy. We have been meeting with Postal Service officials and have outlined a strategy to ensure that the Whistleblower Protection Act is adopted as postal policy. We will notify you upon completion of this plan and when it is fully adopted.

To address Postal Service challenges, the Postal Service must give labor management issues more visibility. We will continue to work with management and to consult with labor officials to ensure our reviews are pertinent and that our recommendations are appropriately addressed. In addition, we will assess the study commissioned by the Postal Service to determine what actions we need to take to help the Postal Service achieve its goal of making its offices and facilities a safe and healthy work environment for its employees.

D. Leveraging Technology to Enhance Productivity

The Postal Service is seeking ways to leverage technology to improve its service, productivity, and profitability. While it depends on technology to deliver more than 650 million pieces of mail every day, the Postal Service must continue to adapt to each new wave of technology quickly to maintain its competitive position in the market. The unprecedented growth in computer interconnectivity and Internet usage is revolutionizing the way the nation communicates and conducts business, and is reshaping customer expectations.

To address these technology challenges, the Postal Service plans to invest approximately \$17 billion through FY 2002 on capital investments, which includes a majority of technology investments. These investments are intended to automate and modernize mail processing and acceptance, enhance communications and access to information, and extend the postal infrastructure to better support core business processes and electronic products and services.

In addition, the Postal Service continues to focus on eBusiness and computer security to protect these investments.

In the last 18 months, we have been asked to testify twice before Congress on technology issues within the Postal Service. Our first testimony was on the Postal Service's progress on Y2K before the Subcommittee on Government Management, Information, and Technology and the Subcommittee on the Postal Service, House Committee on Government Reform in February 1999. In this testimony, we stated the Postal Service had much work to do in order to be ready for the Year 2000. However, Mr. Chairman, my testimony today would be incomplete if I did not mention the success achieved by Postal Service management in meeting the Y2K challenge. The Postal Service successfully deployed software and hardware solutions, prepared a comprehensive monitoring program for the Y2K rollover, and eventually had a successful finish. All of this can be attributed to the hard work of a very large, very dedicated team of professionals and I am proud to say that your committee's oversight and the OIG's work were instrumental to that success. The Postmaster General himself acknowledged the contributions of our organization when he commented that ". . . the OIG played a major role in our being successful in Y2K . . ."

Just this month, we provided testimony on eCommerce before the Subcommittee on International Security, Proliferation, and Federal Services, Senate Committee on Governmental Affairs. This testimony recognized that only since completion of Y2K have we started focusing on the eCommerce area. We cautioned that the Postal Service needs to address lessons learned from more traditional programs that could also affect the eCommerce area. These areas included: organizational structure, planning, budget practices, systems development, contracting, and computer security.

The following highlights work we have done in the developmental technology, computer security, and eBusiness areas.

Developmental Technology. We salute the Postal Service's efforts to automate its processes and we believe this is the direction the Postal Service needs to go in the 21st Century. Our reviews have been directed towards assuring that Postal Service management had accurate and reliable information to base their decisions on technology investments. For instance:

- We reported that the Tray Management System, designed to automate the staging and movement of mail in processing and distribution centers, would not achieve the return on investment projected. Also, we estimated the Postal Service would incur at least \$27.9 million more in costs for labor and operations disruptions than the \$136.4 million originally projected.
- We issued four reports on the \$1 billion Point of Service ONE system. This system is intended to improve customer service, replace retail terminals, and provide more complete and timely accounting of postal financial operations at each location. Although the Postal Service has made progress in developing, deploying, and improving the Point of Service ONE system, we found the system was deployed prior to meeting all initial contract requirements and achieving the functionality originally envisioned. Also, we expressed concerns regarding the increased risk of loss of accounting data that could negatively impact operations.
- We reviewed the Mailing Evaluation, Readability, and Lookup Instrument ("MERLIN") system, designed to automate the acceptance and verification of bulk business mail, and determined that the system should be generally successful and provide a consistent and reliable technology for mail acceptance. However, we believe improvements are needed to avoid erroneous reporting and the loss of postal revenue.

Computer Security. Greater connectivity through the Internet also poses significant security risks to Postal Service computer systems and critical operations they support. In addition, many electronic commerce initiatives involve business partnerships with service providers, meaning each partner is impacted by the other, particularly in the area of security controls. Another emerging security issue is the ability of a business to protect the integrity and privacy of data stored and collected on their client population, including financial information and other data, which profiles their purchasing habits, viewing preferences, and surfing choices. Thus, while the benefits of technology are potentially enormous, the need for proper safeguards to protect the Postal Service and its partners' assets as well as those of its clients is equally important.

- Our review of computer security in the Postal Service indicated a need to develop a more comprehensive, integrated computer security program and make computer security a higher priority. We also found that Postal Service managers need to recognize their responsibilities for computer security, and place more emphasis on planning and budgeting for computer security. Further, Postal Service policies and procedures for computer security need to be developed, implemented, and kept current. In addition, the office responsible for computer security policy-making needs to be elevated within the Postal Service, properly staffed and funded, and given authority over computer security compliance. Finally, we identified technology-related staffing issues involving the lack of background clearances and experience levels, and the difficulty in attracting and retaining qualified security personnel because of salary constraints.
- As the Postal Service provides greater access to its automated systems, these systems become more susceptible to cyberattacks. In order to help the Postal Service address the technology security challenge, we assisted Postal Service officials in identifying and installing a computer intrusion detection system. We have responded to cyberattacks on Postal Service websites and

computer networks and helped the Postal Service develop an action plan for vulnerability scans and penetration test systems.

eBusiness. Electronic commerce presents opportunities for the Postal Service to enhance customer service, increase operational efficiencies, streamline business processes, and provide avenues for new revenue. At the same time, electronic commerce threatens First-Class Mail volumes. The Postal Service is leveraging its traditional strengths—universality, affordability, innovation, and trust—with the power of today’s technology to add new revenue sources and provide systems and services to meet supplier and customer needs. We have conducted four reviews in the electronic commerce area, highlighted below.

- Our initial observations of the Postal Service’s interim electronic commerce organization disclosed that electronic commerce responsibilities were fragmented among several senior managers, and that senior managers’ mainstream functions were commingled with electronic commerce functions. We believe that a single focal point may help ensure a comprehensive, integrated electronic commerce implementation plan and a more efficient use of resources. The Postal Service has subsequently created a new corporate-level group to identify, develop, implement, and invest in new business opportunities and has established the eBusiness Opportunity Board for consideration and review of new eBusiness ideas.
- As mentioned in the New Products and Services section, our draft report disclosed that the Postal Service was able to meet the mailing requirements of one of its largest Internet mailers but was unable to meet the special financial terms requested without approval of the Postal Rate Commission. In addition, once this Internet mailer opted for better financial terms with a postal competitor, we made recommendations to Postal Service management that would save approximately \$5 million by eliminating excess operating capacity and unnecessary transportation costs.

- We reviewed five PC Postage and eBillPay private sector agreements with the Postal Service and found these agreements did not provide adequate access to information maintained by commercial partners. As a consequence, contractors may resist Postal Service program managers' attempts to review contract issues, including billing practices and computer security. For example, one postal agreement specifically prohibits the Postal Service and purportedly the OIG—from discussing alleged crimes committed under the contract with the Department of Justice, without prior approval of the contractor. This area is of particular concern to the OIG because of our need to perform audits or investigations and fulfill the requirements of the Inspector General Act. Senior Postal Service management recognizes that the OIG has access rights in these agreements. Therefore, we are working with Postal Service management to ensure that specific contract language spelling out OIG access rights will be used in contractual agreements.
- Likewise, as we mentioned in the New Products and Services section, USPS eBillPay, the Postal Service online bill presentment and payment service, was launched, in part, to offset the loss of mail volume from bills, financial statements, and payments being diverted from hard-copy mail to the Internet. This program has the potential to be a significant revenue generator for the Postal Service. We reviewed USPS eBillPay to determine if it met privacy and security requirements before bringing the system online. Our review disclosed that the Postal Service needs to adjust its policies and procedures to meet the needs of electronic commerce partnerships and alliances, and better address computer and network security and privacy issues.

III. INSPECTION SERVICE OVERSIGHT

Our enabling legislation requires us to conduct oversight of the Inspection Service in addition to our audit and investigation responsibilities. As a law

enforcement agency, it is essential that the Inspection Service be held to the highest standards of conduct to maintain the public's trust and the Postal Service's reputation of reliability. The Inspection Service and the OIG are still struggling with our new roles. While many initiatives have been successfully concluded, such as the revised designation of functions, other issues continue to be unresolved. We are continuing to work with the Chief Inspector and senior Inspection Service management to resolve these and other issues and to increase the degree of trust, respect, awareness, and cooperation between the two organizations.

The following sections discuss recent changes to the alignment of functions between the Inspection Service and the OIG as well as the oversight work done by the OIG.

Designation of Functions. The original Designation of Functions, which delineated the major audit and investigative responsibilities between the OIG and the Inspection Service, was approved by the Governors in March 1997. After operating under this designation for three years, both organizations concluded that refinements were necessary to more clearly distinguish responsibilities and more effectively utilize resources. In addition, the revision was needed because the Inspection Service divested itself from performing audits of Postal Service programs and operations, based on an OIG audit.

We jointly presented proposed revisions to the Governors who approved a revised Designation of Functions in April 2000. Under the revised Designation of Functions:

- The OIG will perform all audits within the Postal Service, and the Inspection Service will discontinue performing audits.

- The OIG will investigate all procurement fraud within the Postal Service, and the Inspection Service will discontinue procurement/expenditure investigations except cash and money orders.
- The OIG will investigate thefts of postal funds resulting from improper expenditures, including compromise of program integrity, and the Inspection Service will conduct all revenue investigations and embezzlements where there is no formal contract and payments are made in cash and money orders.

At your request Mr. Chairman, we obtained the Inspection Service's agreement on a notification protocol that provides us with a basis to actively monitor internal investigations of Level 15 managers. In addition we have taken steps to develop more effective communication with the Inspection Service to include monthly meetings between our senior staffs to discuss emerging issues and to clarify concerns. We are also working together to establish guiding principles for conveying information related to investigations and reviews. Further, we hope to have agreement within the near future as to what constitutes significant activities and events that must be reported by the Chief Inspector to the Inspector General as required under the Inspector General Act.

Oversight Reviews. Some of our significant reviews found:

- Senior forensic scientists at the Forensic and Technical Services Division lacked parity in salaries when compared to their federal counterparts. The lack of parity in salaries has affected the Inspection Service's ability to recruit and retain qualified senior forensic scientists.
- Personnel did not always have the appropriate security clearances because Postal Service managers and human resources personnel each assumed the other had the responsibility for determining security clearance levels for non-

Inspection Service employees. In addition, guidance did not exist to identify how appropriate clearance levels should be determined.

- In a draft report, we reported that Inspection Service management did not link FY 2000 budget resources to performance goals and did not prepare a strategic plan and annual performance plan, even though they had committed to adhere to Government Performance and Results Act of 1993 requirements. In addition, the Inspection Service did not establish a process for annually determining personnel requirements and for allocating these resources by location. This could negatively impact the Inspection Service's ability to provide an appropriate level of service to its customers.
- There may be a perception that the Inspection Service Disciplinary Process and Awards Program are not consistently and fairly administered. Specifically, in a draft report, we reported that for the disciplinary process, internal investigations were conducted by field inspectors in the same divisions as employees being investigated, and potential violations of the Inspection Service Code of Conduct were not always reported to headquarters, as required. In addition, we could not document the extent of headquarters oversight of internal investigations assigned to field inspectors.

Further, in a draft report looking at the awards programs, we found approval levels for inspector awards were inconsistent with the awards programs of the federal law enforcement agencies surveyed, the types of actions used to justify cash awards varied throughout Inspection Service divisions, and some cash award justifications did not clearly identify the purpose for the award.

IV. OFFICE OF INSPECTOR GENERAL PROGRESS

Since my last testimony, we have made significant progress in ensuring that the public's perception of our independence is maintained; clarifying our

responsibilities with the Inspection Service; developing a more efficient audit resolution process; and building our infrastructure to better serve the Postal Service, the Governors, Congress, and the public.

It is vital that our stakeholders and the public recognize that we are an independent office. If we are not perceived as being independent, our ability to carry out the mission envisioned by Congress when it established the Inspector General Act is severely diminished. As you are aware, the primary purpose of the Inspector General Act was to establish independent Inspectors General to conduct audits, investigations, and reviews of federal government programs and operations in order to identify and deter fraud, waste, abuse, and mismanagement. As an independent office, our mission is to ensure that Government agencies serve their customers and carry out their work efficiently, effectively, and economically.

We have worked to educate Postal Service managers and other stakeholders about our mission and the importance of our independence in carrying out that mission. Therefore, we reacted quickly when, in February, the General Accounting Office issued an “Independence Preliminary Views” document for comment. This document proposed changes to generally accepted Government Auditing Standards. According to the proposed changes, Inspectors General who are appointed by an agency heads would not be considered organizationally independent, and their reports would be required to identify their lack of independence. Thus, despite the independence provided by the Inspector General Act and its provisions, these proposed changes could leave our stakeholders and the public with the perception that our office is not independent. If the changes were incorporated, Postal Service managers, the Governors, Congress, and the public could question the credibility and effectiveness of our reports.

After the Preliminary Views document was issued, we voiced our concerns with the General Accounting Office, Congress, and other members of the federal and non-federal audit community. We obtained an independent legal opinion and provided written comments to the General Accounting Office. I also met with the Comptroller General in July to discuss the proposed changes and the detrimental effect they might have on how our work is perceived. I am pleased to report that our efforts were rewarded, and that the Comptroller General recently advised us that our office would continue to be viewed as organizationally independent.

Audit Resolution. Since my last testimony, we have made progress in fostering communications between our office and the Postal Service in order to increase the timeliness and effectiveness of our reports. This year, the Governors approved a three-step audit resolution process designed to resolve disagreements between Postal Service management and the OIG over recommendations in our reports. The process serves as a vital mechanism for ensuring that disagreements are resolved on a timely basis at the appropriate level of management. Unresolved recommendations are elevated to progressively higher levels of management within the Postal Service. We are working with Postal Service management to review all unresolved issues to identify recommendations and suggestions that are subject to the resolution process.

Peer Review. We recognize the importance of adhering to the highest standards and requirements in our field in order to maintain the high quality of our work. We will be the subject of a peer review in FY 2001, which will provide an independent assessment of our internal quality control system over our reviews and audits, and assurance that we are following applicable standards and requirements.

Staffing. Mr. Chairman, we have made considerable progress in establishing this office. We have achieved our goal of hiring 648 highly qualified people this past

May. We also hired additional staff to meet unanticipated workload needs resulting from the revised designation of functions between this office and the Inspection Service.

This increase in employees has allowed us to provide more timely and reliable information to assist the Postal Service in addressing its challenges, which I have addressed throughout this testimony.

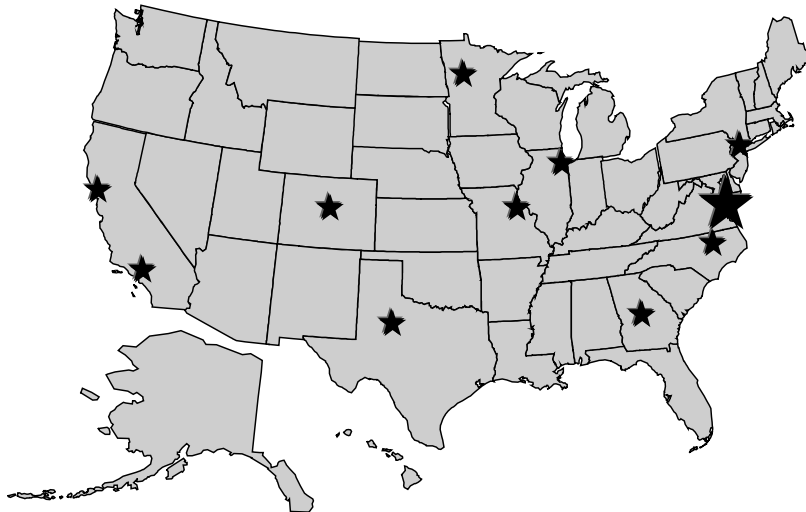
Diverse and Highly Qualified Staff. The Office of Inspector General is proud of the diverse talents, skills, and professional experience of our staff. Of the 660 individuals on board as of today, 50 percent are women and 48 percent are minorities. [Minorities include Blacks (33 percent), Hispanics (6 percent), Asians (7 percent), and Native Americans (.4 percent).] Our senior management staff is 40 percent female and 29 percent minority. We believe this diversity has enhanced our work, and we are committed to developing the diverse talents of our employees.

Reorganization. Earlier this year, we reorganized our structure to better reflect Postal Service business processes, the new designation of functions, and our ability to be more responsive to our customers. These changes included:

- Realigning and renaming and all teams under the following areas: eBusiness, Business Operations, Business Protection, Oversight and Business Evaluations, and Internal Business;
- Dividing the field liaison function into East and West areas of operation; and
- Moving the Strategic Planning and Internal Quality, Congressional and Public Relations, and Quality Assurance/Internal Affairs teams to more prominent positions within the organization.

Field Offices. We recognize the importance of establishing a nationwide presence. This year, we have positioned ourselves strategically across the country to increase our coverage of postal operations. We have opened 5 new offices for a total of 11. You can find our staff in Arlington, Virginia; Dallas, Texas; Minneapolis, Minnesota; St. Louis, Missouri; San Mateo, California; Los Angeles, California; Atlanta, Georgia; Chicago, Illinois; New York, New York; Denver, Colorado; and Raleigh, North Carolina.

OIG Field Locations



Budget for FY 2001. I would like to thank the Governors for recognizing the continuing benefits of our work by approving our FY 2001 budget of \$113 million. This will allow us to increase our staff by 77 employees to a total staff of 725, and to open four additional offices in Tampa, Florida; Boston, Massachusetts; Pittsburgh, Pennsylvania; and Portland, Oregon. These offices will help increase our visibility to Postal Service stakeholders, increase our local coverage of postal operations, and reduce the travel burden on our employees, some who are currently travelling more than 75 percent of the time.

V. CLOSING

In closing, I want to thank you for this opportunity to testify before the Subcommittee. Our independent status and the public perception of that independence enables us to continue to add value to the Postal Service as it evaluates its role in a technologically advanced and highly competitive environment. The OIG will continue to assist the Postal Service, the Governors, and Congress by providing accurate and objective information to help you make important decisions. We look forward to continuing to work with this Subcommittee, the Governors, and the Postal Service.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions you or the Subcommittee may have.

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